Mpofana Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing Municipal Services
Members of Council	
Mayor	XM Duma
Councillors	Z Ismail
	B Khumalo
	LQ Mkhize
	N Mthalane
	L Shabalala
	M Magubane started 27 August 2018
	ME Majola
	N Ndlovu
Grading of local authority	Grade 2
Acting Accounting Officer	Mr J Mogkatsi
Acting Chief Finance Officer (CFO)	Miss N Sibobi
Registered office	10 Claughton Terrace Mooi River 3300
Municipal Contact details	033 263 1221/7700
Postal address	P O Box 47 Mooi River 3300
Bankers	First National Bank
Auditors	The Auditor General of South Africa

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services,rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on page 4 to 55 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Accounting Officer
J. Mokgatsi

The accounting officer submits his report for the year ended 30 June 2019.

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	7	267 413	359 850
Receivables from exchange transactions	8	67 285 279	31 056 920
Receivables from non-exchange transactions	9	19 667 244	25 354 939
VAT receivable	10	15 361 670	5 581 887
Loan receivables		399 638	399 638
Cash and cash equivalents	12	8 841 382	2 366 841
		111 822 626	**65 120 075**
Non-Current Assets			
Investment property	2	15 570 000	16 389 012
Property, plant and equipment	3	157 166 671	150 668 282
Intangible assets	4	882 603	882 604
Heritage assets	5	127 600	110 500
		173 746 874	**168 050 398**
Non-Current Assets		173 746 874	168 050 398
Current Assets		111 822 626	65 120 075
Total Assets		**285 569 500**	**233 170 473**
Liabilities			
Current Liabilities			
Finance lease obligation	13	4 665 680	4 665 680
Payables from exchange transactions	16	183 136 826	114 883 126
Consumer deposits	17	332 516	327 298
Employee benefit obligation	6	793 035	855 000
Unspent conditional grants and receipts	14	15 263 459	16 624 298
Provisions	15	3 593 243	3 551 354
		207 784 759	**140 906 756**
Non-Current Liabilities			
Finance lease obligation	13	14 040 294	14 040 290
Employee benefit obligation	6	14 644 708	13 155 000
Provisions	15	9 428 335	7 156 494
		38 113 337	**34 351 784**
Non-Current Liabilities		38 113 337	34 351 784
Current Liabilities		207 784 759	140 906 756
Total Liabilities		**245 898 096**	**175 258 540**
Assets		285 569 500	233 170 473
Liabilities		(245 898 096)	(175 258 540)
Net Assets		**39 671 404**	**57 911 933**
Accumulated surplus		39 671 404	57 911 933

* See Note 40

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	69 888 763	64 954 863
Rental of facilities and equipment	20	49 887	71 477
Licences and permits		248 428	2 145 716
Other income	22	1 733 577	5 561 070
Interest received - investment	23	458 351	4 046 569
Total revenue from exchange transactions		**72 379 006**	**76 779 695**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	14 613 070	10 854 078
Transfer revenue			
Government grants & subsidies	25	66 514 297	47 219 166
Fines, Penalties and Forfeits		25 535	12 804 507
Total revenue from non-exchange transactions		**81 152 902**	**70 877 751**
		72 379 006	76 779 695
		81 152 902	70 877 751
Total revenue	18	**153 531 908**	**147 657 446**
Expenditure			
Employee related costs	26	(46 766 331)	(39 719 531)
Remuneration of councillors	27	(2 702 235)	(2 524 606)
Depreciation and amortisation	28	(7 808 094)	(15 615 240)
Reversal of impairments	29	(2 145)	(2 339 994)
Finance costs	30	-	(2 145 214)
Debt Impairment	31	-	(16 264 850)
Bulk purchases	32	(64 644 137)	(58 251 756)
Contracted services	33	(5 112 010)	(4 037 624)
General Expenses	34	(51 239 216)	(35 821 869)
Total expenditure		**(178 274 168)**	**(176 720 684)**
		-	-
Total revenue		153 531 908	147 657 446
Total expenditure		(178 274 168)	(176 720 684)
Operating surplus/deficit		-	-
Deficit before taxation		(24 742 260)	(29 063 238)
Taxation		-	-
Deficit for the year from continuing operations		**(24 742 260)**	**(29 063 238)**
Discontinued operations		(801 913)	898 100
Deficit for the year		**(25 544 173)**	**(28 165 138)**

* See Note 40

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**86 077 071**	**86 077 071**
Changes in net assets		
Surplus for the year	(28 165 138)	(28 165 138)
Total changes	(28 165 138)	(28 165 138)
Restated* Balance at 01 July 2018	**65 215 577**	**65 215 577**
Changes in net assets		
Surplus for the year	(25 544 173)	(25 544 173)
Total changes	(25 544 173)	(25 544 173)
Balance at 30 June 2019	**39 671 404**	**39 671 404**

* See Note 40

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		20 133 822	20 133 822
Grants		97 226 887	97 226 887
Interest income		2 253 470	2 253 470
		119 614 179	119 614 179
Payments			
Employee costs		(41 478 158)	(41 478 158)
Suppliers		(51 713 401)	(51 713 401)
Finance costs		-	(2 145 214)
Other cash item		278 033	278 033
		(92 913 526)	(95 058 740)
Total receipts		119 614 179	119 614 179
Total payments		(92 913 526)	(95 058 740)
Undefined difference compared to the cash generated from operations note		**(14 023 045)**	**(27 851 665)**
Net cash flows from operating activities	36	**12 677 608**	**(3 296 226)**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	12 891 407	(40 400 298)
Purchase of other intangible assets	4	(689)	(1 200 000)
Proceeds from sale of other asset 2		(194 468)	-
Net cash flows from investing activities		**12 696 250**	**(41 600 298)**
Cash flows from financing activities			
Finance lease payments		-	(21 502 485)
Net increase/(decrease) in cash and cash equivalents		**25 373 858**	**(66 399 009)**
Cash and cash equivalents at the beginning of the year		2 366 841	496 505
Cash and cash equivalents at the end of the year	12	**27 740 699**	**(65 902 504)**

* See Note 40

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	68 990 964	6 836 036	**75 827 000**	69 888 763	**(5 938 237)**	(a)
Rental of facilities and equipment	143 000	53 000	**196 000**	49 887	**(146 113)**	(b)
Licences and permits	2 677 000	348 752	**3 025 752**	248 428	**(2 777 324)**	(c)
Other income - (rollup)	3 834 000	69 826	**3 903 826**	1 733 577	**(2 170 249)**	(d)
Interest received - investment	3 051 000	176 000	**3 227 000**	458 351	**(2 768 649)**	(e)
Total revenue from exchange transactions	**78 695 964**	**7 483 614**	**86 179 578**	**72 379 006**	**(13 800 572)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	21 135 863	8 678 153	**29 814 016**	14 613 070	**(15 200 946)**	(f)
Property rates - penalties imposed	1 561 074	74	**1 561 148**	-	**(1 561 148)**	(g)
Transfer revenue						
Government grants & subsidies	55 900 000	7 050 000	**62 950 000**	66 514 297	**3 564 297**	(h)
Fines, Penalties and Forfeits	8 654 000	2 894 700	**11 548 700**	25 535	**(11 523 165)**	(i)
Total revenue from non-exchange transactions	**87 250 937**	**18 622 927**	**105 873 864**	**81 152 902**	**(24 720 962)**	
'Total revenue from exchange transactions'	78 695 964	7 483 614	**86 179 578**	72 379 006	**(13 800 572)**	
'Total revenue from non-exchange transactions'	87 250 937	18 622 927	**105 873 864**	81 152 902	**(24 720 962)**	
Total revenue	**165 946 901**	**26 106 541**	**192 053 442**	**153 531 908**	**(38 521 534)**	
Expenditure						
Personnel	(44 179 917)	(1 291 049)	**(45 470 966)**	(46 766 331)	**(1 295 365)**	(i)
Remuneration of councillors	(1 929 583)	(739 172)	**(2 668 755)**	(2 702 235)	**(33 480)**	(k)
Depreciation and amortisation	(10 925 140)	(3 012 000)	**(13 937 140)**	(7 808 094)	**6 129 046**	(l)
Impairment loss/ Reversal of impairments	-	-	**-**	(2 145)	**(2 145)**	(l)
Debt Impairment	(19 000 000)	1 109 000	**(17 891 000)**	-	**17 891 000**	
Bulk purchases	(71 250 000)	(8 750 000)	**(80 000 000)**	(64 644 137)	**15 355 863**	(m)
Contracted Services	(3 718 674)	(103 752)	**(3 822 426)**	(5 112 010)	**(1 289 584)**	(n)
General Expenses	(25 808 638)	(31 232 868)	**(57 041 506)**	(51 239 216)	**5 802 290**	(o)
Total expenditure	**(176 811 952)**	**(44 019 841)**	**(220 831 793)**	**(178 274 168)**	**42 557 625**	
	(10 865 051)	(17 913 300)	**(28 778 351)**	(24 742 260)	**4 036 091**	
	-	-	**-**	-	**-**	
Deficit before taxation	**(10 865 051)**	**(17 913 300)**	**(28 778 351)**	**(24 742 260)**	**4 036 091**	
Surplus before taxation	(10 865 051)	(17 913 300)	**(28 778 351)**	(24 742 260)	**4 036 091**	
Taxation	-	-	**-**	-	**-**	
Deficit for the year from continuing operations	**(10 865 051)**	**(17 913 300)**	**(28 778 351)**	**(24 742 260)**	**4 036 091**	
Discontinued operations	-	-	**-**	(801 913)	**(801 913)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(10 865 051)**	**(17 913 300)**	**(28 778 351)**	**(25 544 173)**	**3 234 178**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

(a) Property Rates
This was mainly due to under billing of farmers as a result iof outdated customer information.

(b) Service charges - Electricity Revenue
Electricty billing was under budgeted.

(c) Service charges - refuse revenue
In line with budget

(d) Rental of facilities and equipment
Hostel dwellers who occupied the town hall led to a substantial decrease in the rental collected.

(e) Interest earned - external investments
Lower than expected external investment of funds due to cashflow issues.

(f) Fines
Mobile camera was not working for three months

(g) Licences and permits
Operating grants not gazzetted on DORA provided by LG SETA and COGTA.

(h) Transfers recognised - operating
Increase in Income from SANRAL and income from N3TC

(i) Other revenue
Increase in overtime because of vacancies and Acting allowance not budgeted for.

(j) Employee related costs
Increase in overtime because of vacancies and Acting allowance not budgeted for.

(k) Remuneration of councillors
MEC Cogta did not approve increase of councilllers as per determination of upper limits

(l) Debt impairment
It was anticipated that more impairments would occur - however this was not the case

(k) Depreciation and asset impairment
On preparation of budget depreciation was underestimated

(L) Finance charges
Due to Cash flow contrains more interest paid to Eskom.

(m) Bulk purchases
Electricity revenue is low due to transmission losses and increase in electricity theft.

(n) Contracted services
On preparation of budget Contacted services was overbudgeted

(p) Other expenditure
Increase in hiring of equipment and maintenance expenditure.

The accounting policies on pages 12 to 28 and the notes on pages 29 to 53 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised. Compensation from third parties for investment property that was impaired ,lost or given up is recognised in surplus or deficit when the compensation becomes receivables.

Subsequent measurement

Investment Property is measured at fair value model and shallmeasure all of its property at fair value.

The fair value of investment property is the price at which property could be exchanged between knowledgeable willing parties in an arms length transaction. fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as sale and leaseback arrangments, special considerations or concessions granted by anyone associated with the sale
An entity dertemines fair value without any deductions for transaction costs it may incur on sale or other disposal

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Costs include costs incurred initially and costs incurred subsequently to add to or to replace a part of, or service property.
If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognisedl.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and standby equipments which are expected to be used for more than one period are included in the property, plant and equipment, In addition spare parts and standby equipments which can only be used in connection with an item of property , pland and equipment are accounted for as property plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at a cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount, being the fair value at the date ofrevaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.4 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	5-25 years
Leased assets	Straight line	3-5 years
Infrastructure	Straight line	3-60 years
Other property, plant and equipment	Straight line	3-10 years

The residual value , and the useful life and depreciation method of each asset are viewed at the end of each reporting date. if the expectations differ from previous estimates the change is accounted for as a change in accounting estimates

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality assesses the probability of expected future economic benefit or service potential using reasonable and supportable assumptions that represents managements best estimates of the set of economic conditions that will exist ove the useful life of the asset.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.
  The municipality has alandfill site which is obligated to rehabilitate at the end of its useful life

1.6 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

When an intangible asset is acquired through a non exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date
An Intangible asset is regarded as as having an indefinite useful life when based on all relevant factors , there is no foreseeable limit to the amortisation method for intangible assets are viewed at each reporting date
Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred .

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	2 years
Computer software, other	Straight line	2 years

Intangible assets are initially recognised at cost, and are carried at cost less any accumulated amortisation and any impairments losses
An intangible asset is recognised when it is probable that the expected future economic benefit or service potential that attributable the asset to the municipality and cost can be measured reliable .

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds , if any , and the carrying amount and is recognised in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
Heritage assets are considered to be indefinite assets and are therefore not depreciated

Recognition

The cost of an item of heritege asset is recognised as an asset if,and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliable
Heritage assets are initialy recognised at cost on its acqusition date or in the case of assets acquired by grant or donation, deemed cost , being the fair value on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition for it to be capable of operating in the manner intended by the municipality.
Trade discounts and rebates are deducted in arriving at the cost. The cost also include the neccessary cost of dismantling and removingthe assetand restoring the site on which it is located.
Where an asset is acquired by the municipality for no or nominal consideration (i.e non exchange transaction) the cost is deemed to be equal to the fair value of that asset on the date acquired
The cost of an item item of heritage assets acquired in axchange for a non monetary asset or monetary asset or a combinationof monetary and non monetary assets, is measured at the fair value of the assets given up, unless the fair value of the assetreceived is more clearly evident
if the required item could not be measured at its fair value its costs is measured at the carrying amount of the asset given up.

Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

Subsequent expenditure relating to to heritage assets capitialised if its probable that future economic benefit or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an assetis only capitalised when its increases the capacity or future benefits associated with the asset. When the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component .

Subsequently all heritage assets are measured at cost less accumulated imparment losses or fair value if the initial cost cannot be measured reliably.

Derecognition

The carrying amountof an item of heritage assets is derecognised on disposal or when no future economic or service potential expected from its use or disposal.03The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognise. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Perfomance as a gain or loss on disposal of heritage assets.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or

1.8 Financial instruments (continued)

- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loan1	Financial asset measured at amortised cost
Loan2	Financial asset measured at amortised cost
Loan3	Financial asset measured at amortised cost
Other receivables1	Financial asset measured at amortised cost
Other receivables2	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Loan1	Financial liability measured at amortised cost
Loan2	Financial liability measured at amortised cost
Loan3	Financial liability measured at amortised cost
Other receivables1	Financial liability measured at amortised cost
Other receivables2	Financial liability measured at amortised cost
Other financial liability1	Financial liability measured at fair value

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Loan and receivables

Identification

Loan and receivables are non- derivative financial assets with fixed or derteminable payments that are not quoted in an active market. Loand and receivables are subsequently measured at amortized cost using the effective interest rate.
The effective interest metjod is a method of calculating the amortised cost of financial asset or financial liability (or group of financial assets or financial liabilities) and of locating allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset and financial liability.

When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an intergral part of the effective interest rate, transaction costs and all other premiums or discounts.In those rare cases when it is not not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial financial instrument (or group of financial instruments).

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

1.11 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an assets is diployed in a manner consistent with that adopted by a profit -oriented entity, it generates a commercial return .

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non cash generating assets are as follows:

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an asset is diployed in a manner consistent with that adopted by a profit orientated entity.It generates a commercial return

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

1.13 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Retirement Funds

The municipality provides retirements benefits for its employees and councillors. The contribution to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The municipality contributes to defined contribution and defined benefit funds. These funds are multi employer funds..

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

1.15 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.16 Commitments

Commitment is reffered to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incure a liability in the form of a purchase contract similar documentation . Such a contract commitment would be accompanied by but not limited to actions takes to dertemine the amount of the eventual resource outflow or a reliable estimate e.g quote and condition to be satisfied to establish an obligation e.g delivery schedule.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.
A municipality may enter on or before the reporting date for expenditure over subsequent accounting periods e.g a contract for construction of infrastructure assets ,the purchase of major items of plant and equipment or significant consultancy contracts. In these events , a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.
Commitments for which disclosure is neccessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
-Contracts should be non-cancellable at significant cost (for example, contracts for computers or building maintenance, services) and
-Contracts should relate to something other than the routine, steady, state business of the of the entity - therefore salary commitments relating to employment contracts or social security benefit commitment are excluded

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.17 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue from non exchange transactions is generallly recognised to the extent that the related receipt or receivables qualities for recognition as an assets and there is no liability to repay the amount.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria condition or obligation have not been met a liability is recognised.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Investments

When the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

Accounting Policies

1.26 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by South African Government as a consequence of constitutional independence of the three spheres of government in South Africa only entities within the local sphere of government are considered to be related parties.
Only transactions with related parties not at arms length or not in the ordinary course of business and disclosed.
Key management personnel - Their costs are disclosed in note 27.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Prior Period error accounting

Prior period errors are ommission from, and mistatements in the municipality financial statements for one or more prior periods arising from failure to use, or misuse of available reliable information

Unless it is impracticable to dertemine the effects of the error, the municipality corrects material prior period retrospectively by restating the comparative amountsfor the prior period

1.30 Use of estimates

The preparation of financial statements is conformity with standards of GRAP requires use of certain critical accounting estimates.
Sections of the financial statements. Although these estimates are based on managements best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	15 570 000	-	15 570 000	16 389 012	-	16 389 012

Reconciliation of investment property - 2019

	Opening balance	**Fair value adjustments**	**Total**
Investment property	16 389 012	(819 012)	15 570 000

Reconciliation of investment property - 2018

	Opening balance	**Fair value adjustments**	**Total**
Investment property	15 490 912	898 100	16 389 012

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	4 632 716	-	4 632 716	4 632 716	-	4 632 716
Buildings	17 266 691	(6 663 525)	10 603 166	16 330 870	(5 142 721)	11 188 149
Infrastructure	200 776 838	(99 517 711)	101 259 127	162 062 594	(67 540 466)	94 522 128
Other property, plant and equipment	10 599 165	(9 087 106)	1 512 059	10 451 349	(7 074 001)	3 377 348
Work in progress	25 789 858	-	25 789 858	18 733 978	-	18 733 978
Leased assets	27 095 971	(14 479 022)	12 616 949	27 095 970	(9 961 233)	17 134 737
Landfil site	8 194 036	(7 441 240)	752 796	8 397 358	(7 318 132)	1 079 226
Total	**294 355 275**	**(137 188 604)**	**157 166 671**	**247 704 835**	**(97 036 553)**	**150 668 282**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Difference	Additions	Depreciation	Total
Land	4 632 716	-	-	-	4 632 716
Buildings	11 188 149	-	-	(584 983)	10 603 166
Infrastructure	94 522 128	**48 453**	6 689 337	(791)	101 259 127
Other property, plant and equipment	3 377 348	**(366 531)**	322 054	(1 820 812)	1 512 059
Work in progress	18 733 978	**7 055 880**	-	-	25 789 858
Leased assets	17 134 737	**(4 517 788)**	-	-	12 616 949
Landfil site	1 079 226	**(326 430)**	-	-	752 796
	150 668 282	**1 893 584**	**7 011 391**	**(2 406 586)**	**157 166 671**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Difference	Additions	Changes in Accounting estimates	Depreciation	Impairment loss	Total
Land	4 632 716	-	-	-	-	-	4 632 716
Buildings	11 520 766	-	-	84 962	(417 579)	-	11 188 149
Infrastructure	103 557 153	**(47 662)**	-	409	(8 987 772)	-	94 522 128
Other property, plant and equipment	3 320 972	**208 094**	167 550	1 732 947	(2 053 264)	1 049	3 377 348
Capital Work in Progress	7 144 696	-	11 589 282	-	-	-	18 733 978
Finance lease assets	22 647 199	**(552 622)**	-	210 465	(5 170 305)	-	17 134 737
Landfill site	1 438 219	**(5 457)**	-	-	(353 536)	-	1 079 226
	154 261 721	**(397 647)**	**11 756 832**	**2 028 783**	**(16 982 456)**	**1 049**	**150 668 282**

Reconciliation of Work-in-Progress 2019

	Total
Opening balance	7 144 696
Additions/capital expenditure	11 589 062
	18 733 758

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	5 878 496	1 266 200	15 447 810
Additions/capital expenditure	10 997 605	591 457	16 373 481
Other movements [specify]	-	-	(24 676 595)
	16 876 101	**1 857 657**	**7 144 696**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Employee related costs	-	4 003 019

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 272 258	(389 655)	882 603	1 272 258	(389 654)	882 604

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Total
Computer software, other	882 604	(1)	882 603

Reconciliation of intangible assets - 2018

	Opening balance	Other changes, movements	Amortisation	Total
Computer software, other	1 121 735	3 471	(242 602)	882 604

5. Heritage assets

	2019		
	Cost / Valuation	Accumulated impairment losses	Carrying v
Art Collections, antiquities and exhibits	127 600	-	127

Reconciliation of heritage assets 2019

5. Heritage assets (continued)

	Opening balance	Revaluation increase/(decrease)	Total
Art Collections, antiquities and exhibits	110 500	17 100	127 600

Reconciliation of heritage assets 2018

	Opening balance	Total
Art Collections, antiquities and exhibits	110 500	110 500

6. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(12 858 665)	(11 720 000)
Present value of the defined benefit obligation-partly or wholly funded	(2 579 078)	(2 290 000)
	(15 437 743)	**(14 010 000)**
Non-current liabilities	(14 644 708)	(13 155 000)
Current liabilities	(793 035)	(855 000)
	(15 437 743)	**(14 010 000)**

Net expense recognised in the statement of financial performance

Current service cost	948 000	576 000
Interest cost	1 365 000	1 163 000
Actuarial (gains) losses	(242 257)	(381 000)
	2 070 743	**1 358 000**

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	- %	10.09 %
Expected rate of return on assets	- %	6.43 %
Expected rate of return on reimbursement rights	- %	7.93 %
Actual return on reimbursement rights	- %	2.00 %

Other assumptions - Post retirement medical aid
It is assumed that healthcare cost trends rates have a significant effect on the amounts recognised is surplus or deficit

Other assumptions- Long service bonus awards
The valuation bases assumed that the salary inflation rate (which manifests itself as as an annual increase in employees salaries which dertemine the bonuses payable) will be 0.09% less than the corresponding discount rate in the long term

Defined contribution plan

Certain councillors and certain employees belong to the defined benefit plan of the Natal Joint Superannuation and retirements funds, and the Municipal Councillors Pension Fund. Employees of Mpofana make up less than 1% of the total members of the funds. Mpofana's liability in these funds could not be dertemined owing mainly to the assets not being allocated to each municipality and one set of financial being prepared for each fund and not per municipality. These funds are subject to triennial acturial valuations. The last statutory valuations was perfomed in March 2015 on the retirement and provident funds and in March 2014 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2015

Superannuition Fund

The acturial value of total assets was R10 113 227 million at the acturial date
1.surplus of R0.00 in respect of pensioners (Funding level 100%)
2.surplus of R0.00 in respect of members (funding level 100%)
3. the fund was thus 100% funded
4. the fund did not hold any an investment reserve.
5.the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future services by 1.41% of members pensionable emoluments.
6. An additional contribution by the way of surcharge amounting to 9.5% of salaries is currently in place to fund the deficit. The surcharge will build up the Solvency Reserve

Retirement Fund

The acturial value of total assets was R3 650 776 million at the acturial valuation date .
1. surplus of R0.00 in respect of pensioners (funding level 100%)
2. deficit of R148 694 million in respect of members (funding level 91.1%)
3. the fund was thus 96.1% funded
4.the fund did not hold an investment reserve
5. the total contribution rate payable will include a surcharge of 17.5% payable to reduce the deficit in the fund

Provident Fund

The acturial value of the total assets was R2 636 064 million at the acturial valuation date
1. surplus/deficit of R0.00 and the funding levels is 107.4%
2. the fund was thus 107.4 funded
3. the fund did not hold an investment reserve

7. Inventories

Consumable stores	267 413	359 850

Figures in Rand	2019	2018

8. Receivables from exchange transactions

Consumer debtors - Electricity	47 548 209	15 218 092
Consumer debtors - Refuse	22 790 650	18 892 408
Consumer debtors - Sundry	46 163 107	46 163 107
Provsion for bad debts - Sundry	(49 216 687)	(49 216 687)
	67 285 279	**31 056 920**

9. Receivables from non-exchange transactions

Property Rates	29 745 965	35 433 660
Fines	40 402 710	40 402 710
Sundry debtors	352 841	352 841
Provision for bad debts - Rates	(13 455 189)	(13 455 189)
Provision for bad debts - Fines	(37 379 083)	(37 379 083)
	19 667 244	**25 354 939**

10. VAT receivable

VAT	15 361 670	5 581 887

Vat is payable on the receipt basis. Only once payment is received from debtors is VAT paid over to SARSt

11. Receivables from exchange transactions

Gross balances		
Property Rates	29 694 592	26 910 384
Electricity	11 678 939	8 719 543
Refuse	18 892 408	15 366 886
Sundry debtors	45 898 723	45 954 293
	106 164 662	**96 951 106**
Less: Allowance for impairment		
Rates	(14 982 296)	(13 455 189)
Electricity	(2 335 788)	(1 743 908)
Refuse	(13 224 685)	(10 756 820)
Sundries	(32 129 106)	(32 168 010)
	(62 671 875)	**(58 123 927)**
Included in above is receivables from exchange transactions		
Electricity	-	9 343 151
Rates	-	14 982 296
Refuse	-	5 667 722
Sundries	-	13 769 617
	-	**43 762 786**
Net balance	**-**	**43 762 786**
Rates		
Current (0 -30 days)	-	(3 087 314)
31 - 60 days	-	1 807 973
61 - 90 days	-	913 677
91 - 120 days	-	30 331 256
	-	**29 965 592**

Figures in Rand	2019	2018

11. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	-	3 014 510
31 - 60 days	-	2 728 049
61 - 90 days	-	490 697
91 - 120 days	-	5 445 683
	-	**11 678 939**
Refuse		
Current (0 -30 days)	-	312 486
31 - 60 days	-	646 526
61 - 90 days	-	320 490
91 - 120 days	-	17 612 907
	-	**18 892 409**
Other (specify)		
91 - 120 days	-	45 898 723

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	8 841 382	2 366 841

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
First National Bank - Current Account - 53050399907	1 280 134	2 225 941	357 892	-	-	-
First National Bank - Current Account - 62101108034	108 166	140 614	24 856	-	-	-
First National Bank- Call Account -62187203957	2 658 242	433	19 326	-	-	-
First National Bank- Call Account - 62237621760	3 922	1 941	449	-	-	-
First National Bank- Call Account -62712488085	214	214	36 856	-	-	-
First National Bank- Call Account -62141712001	376	376	1 376	-	-	-
First National Bank- Call Account - 62134172890	345	345	4 345	-	-	-
First National Bank- Call Account -62172498183	272	272	16 169	-	-	-
First National Bank- Call Account -62172493935	22 158	181	1 181	-	-	-
First National Bank- Call Account -62036716746	215	215	215	-	-	-
First National Bank- Call Account -62173946040	1 306 438	306	5 278	-	-	-
First National Bank- Call Account -62066847553	580	580	7 571	-	-	-
First National Bank- Investment Account -74630870406	33 280	31 609	16 018	-	-	-
Total	**5 414 342**	**2 403 027**	**491 532**	**-**	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Finance lease obligation

Minimum lease payments due		
- within one year	-	6 324 435
- in second to fifth year inclusive	-	16 161 361
	-	22 485 796
less: future finance charges	-	(3 741 054)
Present value of minimum lease payments	**-**	**18 744 742**

Present value of minimum lease payments due		
- within one year	-	4 665 680
- in second to fifth year inclusive	-	14 079 062
	-	**18 744 742**

The average lease term was 5 years and the average effective borrowing rate was -% (2018: 2%).

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Craigburn Housing Project Grant	5 840 388	5 840 388
Municipal Assistance Grant- Small Town grant	722 531	2 083 510
Townview Housing Project Grant	8 168 481	8 168 481
Library subsidy	-	57 037
Intergrated National Electrification Program	-	474 882
Tittle Deeds Grant	532 059	-
	15 263 459	**16 624 298**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Movements	Total
Provision for landfill site	7 156 494	2 271 841	9 428 335
Provision for leave pay	3 551 354	41 889	3 593 243
	10 707 848	**2 313 730**	**13 021 578**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Provision for landfill site	6 714 263	442 231	7 156 494
Provision for leave pay	3 220 630	330 724	3 551 354
	9 934 893	**772 955**	**10 707 848**

Non-current liabilities	9 428 335	7 156 494
Current liabilities	3 593 243	3 551 354
	13 021 578	**10 707 848**

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be the case soon.
A discount factor based on prime interest and adjustment for municipali specific risk was applied

The provision is for the obligation for leave due to staff members at year end based on staff salaries and days leave due
The timing and amounts of any resulting outflows of economic benefit cannot be estimated.

16. Payables from exchange transactions

Trade payables	156 013 256	100 345 175
Retentions	3 475 357	3 475 357
Debtor payments received in advance	4 343 696	4 343 696
Unallocated receipts	70 220	70 220
Salary suspense	18 155 445	5 572 626
13th Cheque Accrual	959 308	959 308
Receipting errors	119 544	116 744
	183 136 826	**114 883 126**

17. Consumer deposits

Electricity	325 027	319 509
Other	7 489	7 789
	332 516	**327 298**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

18. Revenue

Service charges	69 888 763	64 954 863
Rental of facilities and equipment	49 887	71 477
Licences and permits	248 428	2 145 716
Fair value adjustment	1 733 577	5 561 070
Interest received - investment	458 351	4 046 569
Property rates	14 613 070	10 854 078
Government grants & subsidies	66 514 297	47 219 166
Fines, Penalties and Forfeits	25 535	12 804 507
	153 531 908	**147 657 446**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	69 888 763	64 954 863
Rental of facilities and equipment	49 887	71 477
Licences and permits	248 428	2 145 716
Other income - (rollup)	1 733 577	5 561 070
Interest received - investment	458 351	4 046 569
	72 379 006	**76 779 695**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	14 613 070	10 854 078
Transfer revenue		
Government grants & subsidies	66 514 297	47 219 166
Fines, Penalties and Forfeits	25 535	12 804 507
	81 152 902	**70 877 751**

19. Service charges

Sale of electricity	66 331 216	61 568 788
Refuse removal	3 557 547	3 386 075
	69 888 763	**64 954 863**

20. Rental of facilities and equipment

Premises		
Premises	62 736	66 562
Venue hire	(12 849)	4 915
	49 887	**71 477**

21. Other revenue

Other income - (rollup)	1 733 577	5 561 070

22. Other income

Other income	173 390	430 096
Income from N3 TC	431 990	857 146
Other income 6	22 620	-
Other income 8	2 348	-
Income from Sanral	1 103 229	4 273 828
	1 733 577	**5 561 070**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

23. Investment revenue

Interest revenue		
Bank	483 782	49 194
Interest on debtors	(25 431)	3 997 375
	458 351	**4 046 569**

24. Property rates

Rates received

Residential	8 633 352	5 368 893
Commercial	3 009 350	2 828 839
State	319 644	301 411
Municipal	8 182 815	7 784 294
Communal Property Land	572 588	559 459
PSI: Public Benefit Organisation	899 879	849 386
Less: Income forgone	(7 004 558)	(6 838 204)
	14 613 070	**10 854 078**

Valuations

Agricultural	-	1 849 692 000
	-	91 100 000
Agricultural and smallholding	-	148 700 000
Business and Commercial	-	193 635 000
Industrial	-	2 260 000
Municipal	-	14 504 000
Place of worship	-	24 850 000
Public benefit organisation	-	121 945 000
Public service infrastructure	-	25 994 000
Residential	-	582 320 700
Residential -Sectional Tittle	-	8 330 000
	-	333 010 000
	-	74 767 000
	-	120 070 000
	-	3 729 000
	-	2 200 000
	-	70 820 000
	-	**3 667 926 700**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2012.

Rebates of -% (2018: -%) are granted to residential properties,55% (2017: 55%) are granted to agricultural properties, 30% (2017: 30%) on public service infrastructure and 20% (2017. 20%) on public service benefits.

Rates are levied on an monthly basis.

Figures in Rand	2019	2018

25. Government grants and subsidies

Operating grants		
Equitable Share	32 002 882	29 225 000
Intergrated National Electrical Program	6 984 000	-
Learnership awareness programme	-	373 576
Government grant (operating) 5	7 000 000	-
Provincial Library subsidy	1 930 037	1 270 374
Public health subsidy	146 400	-
Government grant (operating) 8	50 000	-
Museum grant	192 000	183 000
Finance management grant (FMG)	1 970 000	1 900 000
Extended Public Works Program	1 000 000	1 000 000
	51 275 319	**33 951 950**
Capital grants		
Municipal Infrastracture grant	13 878 000	12 164 000
Municipal assistance small town grant	1 360 978	1 103 216
	15 238 978	**13 267 216**
	51 275 319	33 951 950
	15 238 978	13 267 216
	66 514 297	**47 219 166**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	18 806 998	48 031 998
Unconditional grants received	-	29 225 000
	18 806 998	**77 256 998**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The equitable share grant also provides funding for the community to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

Craigburn Housing Project Grant

Balance unspent at beginning of year	5 840 388	5 840 388

Municipal Assistance Grant - Small Town Grant

Balance unspent at beginning of year	980 295	2 083 510
Conditions met - transferred to revenue	-	(1 103 215)
	980 295	**980 295**

This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perfom feasibility studies with a view to developing the town by improving its economic state and attracting investment.

Financial Management Grant

Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 970 000)	(1 900 000)
	-	**-**

25. Government grants and subsidies (continued)

Townview Housing Project Grant

	2019	2018
Balance unspent at beginning of year	8 168 481	8 168 481

Museum Grant

	2019	2018
Current-year receipts	192 000	183 000
Conditions met - transferred to revenue	(192 000)	(183 000)
	-	-

This subsidy has been granted to the municipality for operational upkeep of the museum.

Expanded Public wor Works Programme Grant

	2019	2018
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

This subsidy is provided by Department of Public Works to assist with the alleviation of poverty in the municipal area by providingtemporary employment for the unemployed.

Library Grant

	2019	2018
Balance unspent at beginning of year	92 663	57 037
Current-year receipts	1 873 000	1 306 000
Conditions met - transferred to revenue	(1 965 663)	(1 270 374)
	-	**92 663**

Leanership Awareness Programme Grant

	2019	2018
Balance unspent at beginning of year	(956 745)	(766 509)
Current-year receipts	-	640 905
Conditions met - transferred to revenue	-	(831 141)
	(956 745)	**(956 745)**

This grant is provided by SETA to employ unemployed learners in the municipal area - 100 learners for administrative work and 100 learners for cleaning and hygiene work.

Municipal Infrastructure Grant

	2019	2018
Current-year receipts	13 878 000	12 164 000
Conditions met - transferred to revenue	(13 878 000)	(12 164 000)
	-	-

This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

Integrated National Electrification Programme

	2019	2018
Balance unspent at beginning of year	474 536	-
Current-year receipts	6 984 000	5 000 000
Conditions met - transferred to revenue	(7 458 536)	(4 525 464)
	-	**474 536**

25. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Figures in Rand	2019	2018

26. Employee related costs

Basic	27 885 970	23 605 254
Bonus	1 670 334	1 704 253
Medical aid - company contributions	2 106 950	1 847 171
UIF	231 744	213 595
SDL	370 479	297 764
Other payroll levies	218 655	545 675
Leave pay provision charge	3 741 473	2 475 483
Defined contribution plans	5 384 196	4 918 166
Travel, motor car, accommodation, subsistence and other allowances	1 530 326	1 036 386
Overtime payments	1 784 943	1 684 761
13th Cheques	337 163	126 766
Acting allowances	854 894	818 564
Housing benefits and allowances	125 214	156 665
Redemption of Leave	499 990	63 528
Other payroll levies	24 000	225 500
	46 766 331	**39 719 531**

Remuneration of Municipal Manager

Mr M Moyo		
Annual Remuneration	-	716 263
Contributions to UIF, Medical and Pension Funds	-	185 500
	-	**901 763**

Mr SI Mabaso		
Annual Remuneration	665 532	-
Annual Allowance	8 000	-
	673 532	**-**

Mr JM Mokgatsi		
Annual Remuneration	231 104	-
Annual Allowance	77 035	-
	308 139	**-**

Mr Moyo started acting from August 2017 to June 2018

MR SI Mabaso started acting on 25 July 2018 to 31 March 2019l

Mr JM Mokgatsi started acting on 01 April 2017 till present

Remuneration of Chief Finance Officer

Mr MG Ngcobo		
Annual Remuneration	252 290	360 414

Mr GS Majola		
Annual Remuneration	113 331	-
Annual Allowances	1 000	-
	114 331	**-**

Mr JM Mokgatsi		
Annual Remuneration	254 914	-
Annual Allowances	63 249	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee related costs (continued)

	318 163	**-**

Miss NK Sibobi

Annual Remuneration		29 146
Annual Allowances		49 077
		78 223

Mr M ngcobo started acting on 01 February 2018 to October 2018

MR GS Majola started acting on 15 October 2018 to 30 November 2018

Mr JM Mogkatsi started acting on 10 December 2018 to 31 March 2019

Miss NK Sibobi started acting on 05 June 2019 till present

Remuneration of Director Corporate Services

Mr ME Ngonyama

Annual Remuneration	468 190	-
Annual Allowance	63 249	-
	531 439	**-**

Mr ME Ngonyama started acting on 01 September 2018 to 31 March 2019

Remuneration of Director Technical Services

Mr PPS Zamisa

Annual Remuneration	187 104	481 500
Car Allowance	52 888	-
Contributions to UIF, Medical and Pension Funds	-	143 156
	239 992	**624 656**

Mr NSF Zulu

Annual Remuneration	463 829	-
Annual Allowances	133 501	-
	597 330	**-**

Remuneration of Director Social Services

Annual Remuneration	-	140 438
Car Allowance	-	152 846
	-	**293 284**

27. Remuneration of councillors

Mayor	802 251	638 331
Councillors	1 225 371	1 292 723
Councillorsï¿½ pension contribution	90 823	106 722
Councillors' allowances	583 790	679 784
	2 702 235	**2 717 560**

27. Remuneration of councillors (continued)

In-kind benefits

The Mayor, is full-time. The Mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has two bodyguards. .

Arrears owed by Councillors

There were no councillors in arrears as at 30 June 2018

28. Depreciation and amortisation

	2019	2018
Property, plant and equipment	7 808 094	15 376 108
Intangible assets	-	239 132
	7 808 094	**15 615 240**

29. Impairment of assets

	2019	2018
Impairments		
Property, plant and equipment	2 145	2 339 994
Impairment losses are calculated based on the results of a physical verification conducted during which condition assessment is perfomed.]		
	2 145	2 339 994
	-	-

30. Finance costs

	2019	2018
Finance Lease and external loans	-	2 145 214

31. Debt impairment

	2019	2018
Contributions to debt impairment provision	-	16 264 850

32. Bulk purchases

	2019	2018
Electricity - Eskom	64 644 137	58 251 756

33. Contracted services

	2019	2018
Outsourced Services		
Hygiene Services	104 712	75 725
Security Services	3 957 912	3 837 123
Contractors		
Maintenance of Equipment	1 049 386	124 776
Presented previously	-	-
Outsourced Services	4 062 624	3 912 848
Consultants and Professional Services	-	-
Contractors	1 049 386	124 776
	5 112 010	**4 037 624**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. General expenses

Advertising	259 788	206 762
Auditors remuneration	1 730 895	2 312 510
Bank charges	117 279	191 104
Cleaning	6 027	-
Consulting and professional fees	1 879 614	5 768 643
Consumables	110 762	105 375
Deeds transfers	1 446 978	108 207
Entertainment	3 500	-
Hire	3 833 770	9 509 328
Conferences and seminars	8 713	34 970
Motor vehicle expenses	286 015	1 013 222
Penalties and interest	11 054 550	1 322 458
Fuel and oil	7 061 912	1 507 605
Postage and courier	97 017	104 801
Printing and stationery	161 752	85 812
Youth programme	-	1 264 700
Electricity Maintenance (Materials and Supplies)	7 771 275	203 373
EPWP casuals	1 151 404	987 750
Software expenses	1 600 956	1 452 047
Electricity	1 574 744	782 195
Telephone and fax	876 721	1 266 368
Transport and freight	-	4 784
Training	21 009	490 202
Travel - overseas	74 545	17 242
Pensioners medical aid	254 586	(100 380)
Assets expensed	6 313 353	3 900
Uniforms	316 727	-
Sundry costs	100 229	38 501
Ward committee support	166 500	123 450
Legal expenses	2 054 568	2 392 357
Accommodation	6 700	166 468
Repairs and maintenance	652 948	4 003 019
Other expenses	-	455 096
Construction contracts	244 379	-
	51 239 216	**35 821 869**

35. Auditors' remuneration

Fees	29 694	-
Auditor General	1 701 201	2 312 510
	1 730 895	**2 312 510**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

36. Cash generated from (used in) operations

	2019	2018
Deficit	(25 544 173)	(28 165 138)
Adjustments for:		
Depreciation and amortisation	7 808 094	15 615 240
Impairment deficit	2 145	2 339 994
Debt impairment	-	16 264 850
Movements in retirement benefit assets and liabilities	1 427 743	1 443 000
Movements in provisions	2 313 730	520 944
Other non-cash items Disposal of leased assets	-	818 046
Other non-cash items	-	(156 220)
Other non-cash items	-	(28 339 562)
Changes in working capital:		
Inventories	92 437	(204 894)
Receivables from exchange transactions	(36 228 359)	(5 684 936)
Consumer debtors	-	(16 264 850)
Other receivables from non-exchange transactions	5 687 695	(9 122 856)
Payables from exchange transactions	68 253 700	50 983 250
VAT	(9 779 783)	(3 333 450)
Unspent conditional grants and receipts	(1 360 839)	(16 434)
Consumer deposits	5 218	6 790
	12 677 608	**(3 296 226)**

Figures in Rand	2019	2018

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Mooi River Rehabilitation programme	-	1 457 928
• Sthembiso Access road (phase 1 and 2)	2 456 107	5 049 538
• Mangaung Access road (Phase 1 and 2)	1 211 654	2 809 937
• Nyamvubu Community Hall	295 575	994 382
• Mooi River upper town	4 805 153	9 537 304
• Umgqula access road	1 671 949	-
	10 440 438	**19 849 089**
Approved but not contracted for		
• Rondebosch Community Hall	2 781 893	-
• Bhumaneni Community Hall	2 781 893	-
• Highover Access Roads	3 506 746	-
• Phumlaas Internal Roads	3 614 272	-
• Bruntville Internal Roads	3 939 685	-
• York Terrace	7 307 423	-
	23 931 912	**-**
Total capital commitments		
Already contracted for but not provided for	10 440 438	19 849 089
Not yet contracted for and authorised by accounting officer	23 931 912	-
	34 372 350	**19 849 089**

Authorised operational expenditure

Already contracted for but not provided for		
• 12 Months	16 754 579	15 769 939
• 2-5 years	21 670 643	20 643 566
	38 425 222	**36 413 505**
Total operational commitments		
Already contracted for but not provided for	38 425 222	34 165 362

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

38. Contingencies

Mpofana v L Sithole & Others – Eviction of occupiers from town hall. Matter finalised. Judgement against Mpofana dated 19 Dec 2017: R250 000.

L Sithole & Others v Mpofana – Contempt of court app for non-compliance with judgement in eviction matter of 19 Dec 2017 :R75 000

Mpofana & Big 5 Municipality / JM Bird – Property transfer dispute. Resolution passed by council. Matter settled : R20 000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

39. Related parties

Accounting Officer	Refer to accounting officer's report note
Ultimate controlling entity	
Controlling entity	

Related party balances

	2019	2018
Loan accounts - Owing (to) by related parties		
ABC (Proprietary) Limited	-	399 638
Amounts included in Trade receivable (Trade Payable) regarding related parties		
ABC (Proprietary) Limited	-	856 546
CDE (Proprietary) Limited	-	4 273 828

40. Prior period errors

The correction of the error(s) results in adjustments as follows:

41. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

42. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed.
While the municipality had an accumulated surplus of R88 330 228, the current liabilities exceeded the current assets by R45 662 538 and the available cash resource did not cover the commitment for unspent conditional grants with an amount of R16 932 400 being recoverd
The financial statements have been prepared on the basis of accounting policies applicable to a going concern
This basis presumes that both Provincial and National Government have neither the intention nor need to liquidate or curtail materially the scale of funding of the municipality.

43. Events after the reporting date

At the time of completion of the financial statements there were no event safter the reporting date affecting these financial statements

Figures in Rand	2019	2018

44. Unauthorised expenditure

Opening balance as previously reported	133 169 815	95 651 135
Correction of prior period error	-	37 518 680
Opening balance as restated	**133 169 815**	**133 169 815**
Closing balance	**133 169 815**	**133 169 815**

45. Fruitless and wasteful expenditure

Opening balance as previously reported	2 694 878	2 694 878
During the year	10 280 318	2 129 706
Opening balance as restated	**12 975 196**	**4 824 584**
Closing balance	**12 975 196**	**4 824 584**

Interest and penalty charges were incurred for late payments on Audit Fees, bulk purchases, telephone, DSTV, late paments of employees TAX and VAT

46. Irregular expenditure

Opening balance as previously reported	52 702 212	32 500 286
Add: Irregular Expenditure - current year	26 165 434	20 201 926
Opening balance as restated	**78 867 646**	**52 702 212**
Closing balance	**78 867 646**	**52 702 212**

Incidents/cases identified in the current year include those listed below:

47. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

48. Deviation from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by council, any deviations from the Supply Chain management Policy needs to be approved / condoned by the Municipal Manager and noted by Council
The municipality incurred deviations in terms of section 36(2) of the Municipal Supply Chain Regulations and noted by Council.

Deviation	
Current Year	**253 712.59**
Prior Year	**1 901 900.70**

49. Electricity Losses

Electricity units (kWh) lost in distribution		
Electricity units (kWh) purchased from Eskom	(68 467 820)	(67 466 021)
Electricity units (kWh) sold to conventional customers	38 582 887	40 687 517
Electricity units (kWh) sold prepaid customers	9 575 573	9 216 115
	(20 309 360)	**(17 562 389)**

Electricity (rand value)		
Electricity units (R) purchased from	(50 983 614)	(45 731 264)
Electricity units (R) sold to conventional customers	45 607 128	37 984 702
Electricity units (R) sold prepaid customers	14 109 916	12 558 582
	8 733 430	**4 812 020**

Electricity losses for the financial year are 29.66% (2018:26.03% .)

49. Electricity Losses (continued)

The Rand value of the electricity losses for the financial year R15 123 083.67 (2018: R11 904 514.96)

These losses are a combination of line losses within the network infrastructure and theft.

50. Transitional provisions